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STATE OF MONTANA

Report to the Legislature

MONTANA AGRICULTURAL LOAN AUTHORITY

DEPARTMENT OF AGRICULTURE

Report on the Examination of Financial Statements

Fiscal Year Ended June 30, 1984

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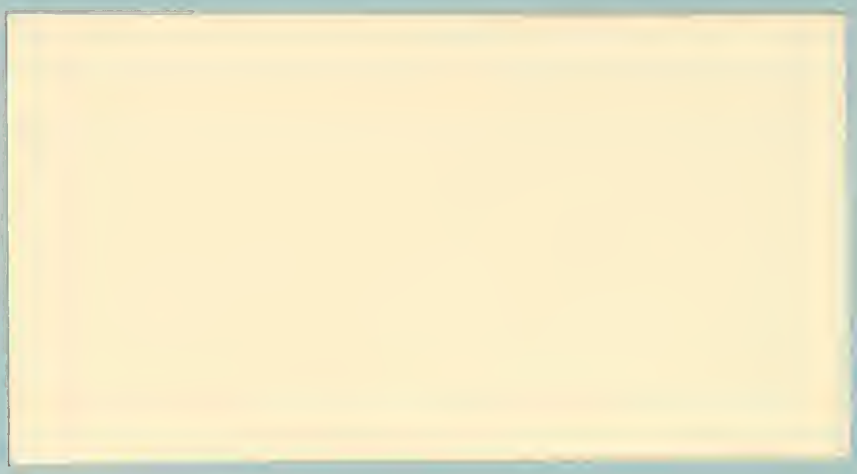

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STATE OF MONTANA

Report to the Legislature

MONTANA AGRICULTURAL LOAN AUTHORITY

DEPARTMENT OF AGRICULTURE

Report on the Examination of Financial Statements

Fiscal Year Ended June 30, 1984

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA AGRICULTURAL LOAN AUTHORITY

		Term Expires
Paul Ringling, Chairman	Miles City	January 1, 1987
Bernard J. Harkness	Dell	January 7, 1985
Harry J. Rodenberg	Wolf Point	January 7, 1985
Jerome G. Dailey	Great Falls	January 7, 1985
Lois S. Tonne	Bozeman	January 7, 1985
Keith Kelly	Helena	January 7, 1985
C. David Gorton	Billings	January 1, 1987
Dennis L. DeVries	Polson	January 1, 1987

AUTHORITY STAFF

Michael Murphy, Administrator

Jeanette DeWolf, Secretary

INTRODUCTION

We performed a financial compliance audit of the Montana Agricultural Loan Authority (MALA) of the Department of Agriculture for the fiscal year ended June 30, 1984. The objectives of the audit were to: 1) determine if the authority's financial statements present fairly its financial position for the fiscal year ended June 30, 1984 and the results of its operations for the fiscal year then ended; 2) determine the authority's compliance with applicable laws and regulations; and 3) make recommendations for improvement in the authority's management and internal controls.

We reviewed compliance with state laws and regulations that could have a material impact on the financial statements of the authority. In our opinion, the authority complied with state laws and regulations tested. Nothing came to our attention that caused us to believe untested items are not in accordance with applicable laws and regulations.

We thank the administrator, his staff, and the Department of Agriculture personnel for their cooperation and assistance during our audit.

BACKGROUND

The Montana Agricultural Loan Authority (MALA) was established by Chapter 580, Laws of 1983. The authority is responsible for administering the following two programs.

The tax-exempt bond program is designed to help private lenders assist beginning farmers and ranchers in the state to acquire agricultural property. The program provides a mechanism for private lenders to purchase a tax-exempt bond. Because of the tax-exempt status of the bonds the lender is able to charge a lower interest rate to qualified beginning farmers and ranchers. The bonds to be issued by the authority will be non-recourse obligations. The authority acts as an agent for the lender and the borrower. The lender assumes full risks on the loan. As of June 30, 1984, the authority had not approved any loans nor issued any tax-exempt bonds.

The tax deduction program provides income tax deductions to retiring farmers or ranchers for land sales to beginning farmers and ranchers. The authority follows the rules of the Montana Department of Revenue in implementing the tax deduction program (MCA 80-12-211). As of June 30, 1984, the authority had not approved any tax deductions.

MALA is attached to the Department of Agriculture for administrative purposes. Financial accounting for the board is performed by the department's Central Services Division.

INTERNAL CONTROL

We have examined the financial statements of the Montana Agricultural Loan Authority for the fiscal year ended June 30, 1984. We issued our opinion dated November 26, 1984 on these statements. As part of our examination, we made a study and evaluation of the system of control of the Montana Agricultural Loan Authority which is administered through the Department of Agriculture. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories: 1) revenue, 2) payroll, 3) expenditures, and 4) cash.

Our study included the control categories listed. Through our study, we determined the nature, timing, and extent of our audit procedures. We performed substantive audit tests on revenue, payroll, and cash because it was more efficient to do so. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole. Our evaluation disclosed no condition that we believe to be a material weakness in internal control.

The management of the Montana Agricultural Loan Authority is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or

disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Montana Agricultural Loan Authority.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

AUDITOR'S REPORT AND AUTHORITY FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS
SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheet as of June 30, 1984, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Changes in Financial Position of the Montana Agricultural Loan Authority Enterprise Fund for the fiscal year then ended. Our examination was made in accordance with generally accepted governmental auditing standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Montana Agricultural Loan Authority Enterprise Fund as of June 30, 1984 and the results of its operations and the changes in its retained earnings for the fiscal year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James H. Gillett

James H. Gillett, CPA
Deputy Legislative Auditor

November 26, 1984

Approved:

Robert R. Ringwood

Robert R. Ringwood
Legislative Auditor

MONTANA AGRICULTURAL LOAN AUTHORITY
DEPARTMENT OF AGRICULTURE
BALANCE SHEET - ENTERPRISE FUND
JUNE 30, 1984

ASSETS	
Cash	$ 49,317
Total Assets	$ 49,317
LIABILITIES AND FUND EQUITY	
Liabilities:	
Inter-entity Loan Payable (Note 4)	$ 97,969
Accounts Payable	3,398
Accrued Expenses	1,495
Long Term Liability for Compensated Absences	5,203
Total Liabilities	108,065
Fund Equity:	
Retained Earnings (Note 4)	(58,748)
Total Fund Equity	(58,748)
Total Liabilities and Fund Equity	$ 49,317

The notes to the financial statements are an integral part of this statement.

MONTANA AGRICULTURAL LOAN AUTHORITY
DEPARTMENT OF AGRICULTURE
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

Operating Revenues:	
Application Fees	$ 25
Total Operating Revenue	25
Operating Expenses:	
Personal Services	42,168
Contracted Services	2,655
Supplies and Materials	277
Communications	2,550
Travel	8,334
Rent	846
Repair and Maintenance	288
Other Expenses	160
Equipment and Intangible Assets	1,495
Total Operating Expenses	58,773
Operating Income (Loss)	(58,748)
Retained Earnings - July 1, 1983	-0-
Retained Earnings - June 30, 1984 (Note 4)	$(58,748)

The notes to the financial statements are an integral part of this statement.

MONTANA AGRICULTURAL LOAN AUTHORITY
DEPARTMENT OF AGRICULTURE
STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

Sources of Working Capital:	
Total Sources of Working Capital	$ -0-
Uses of Working Capital:	
Operations:	
Net Loss	58,748
Total Uses of Working Capital	58,748
Net Increase (Decrease) in Working Capital	$(58,748)
Elements of Net Increase (Decrease) in Working Capital:	
Cash	$ 49,317
Accounts Payable	(3,398)
Accrued Expenditures	(1,495)
Inter-entity Loans Payable	(97,969)
Liability for Compensated Absence	(5,203)
Net Increase (Decrease) in Working Capital	$(58,748)

The notes to the financial statements are an integral part of this statement.

MONTANA AGRICULTURAL LOAN AUTHORITY

DEPARTMENT OF AGRICULTURE

Notes to the Financial Statements

For the Fiscal Year Ending June 30, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Agricultural Loan Authority is responsible for administering the activities of the tax-exempt bond program and the tax deduction program. These programs are designed to help private lenders assist beginning farmers and ranchers to acquire agricultural property.

A. Basis of Accounting

The financial statements were prepared from the Statewide Budgeting and Accounting System with adjustments.

The authority utilizes the accrual basis of accounting for the Enterprise Fund. Under this basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

B. Description of Fund

The fund presented and its relationship to the State Treasury Fund structure is as follows:

PROPRIETARY FUND TYPE

Enterprise Fund - To account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the Legislature is that the costs (expenses, including depreciation) of providing goods

or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Encumbrances

Encumbrances are recorded for purchase orders, contracts, and other commitments in order to reserve that portion of applicable appropriations for all funds. At fiscal year-end, in accordance with state policy, major qualifying encumbrances are reclassified as payables and charged as expenditures.

D. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1984 was immaterial.

E. Insurance

The authority is insured through the Insurance Division of the Department of Administration.

2. EMPLOYEES' RETIREMENT SYSTEM

The authority's employees are covered by the Public Employees' Retirement System (PERS). This plan is administered by the State of Montana. Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. All eligible employees

contribute 6.0 percent of gross wages. The authority's contribution to PERS for the fiscal year ended June 30, 1984 was $1,806.

The state's policy is to fund accrued pension costs. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for the members of the plan employed by the authority. The Public Employees' Retirement System was actuarially sound at June 30, 1984.

3. ANNUAL AND SICK LEAVE

Annual leave and sick leave costs are not recorded until leave is taken. Upon termination, qualifying employees with unused accumulated annual leave and sick leave receive 100 percent payment for annual leave and 25 percent payment for sick leave. The liability amount associated with unused annual leave and sick leave at June 30, 1984 is maintained on an hourly basis. Annual leave is earned based on length of state service (15 days per year, up to 24 days per year). Payouts of leave are made at current payroll rates. As of June 30, 1984, the authority had a predicted liability of $5,200 for vacation leave and sick leave.

4. INTER-ENTITY LOAN

House Bill 447, Laws of 1983 gave authority for a $97,969 inter-entity loan from the state general fund for the initiation of the program. The loan must be repaid by June 30, 1985.

AUTHORITY RESPONSE

TED SCHWINDEN
GOVERNOR

STATE OF MONTANA
DEPARTMENT OF AGRICULTURE
OFFICE OF THE DIRECTOR
AGRICULTURE/LIVESTOCK BLDG.
CAPITOL STATION
HELENA, MONTANA 59620-0201

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KEITH KELLY
DIRECTOR

December 21, 1984

Mr. Robert Ringwood
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

I would like to thank you and your staff for the courteous and professional manner in which this audit was conducted.

Sincerely,

Keith Kelly
Director

ME/ck